



ASIA-PACIFIC FINANCIAL FORUM

2017 Progress Report to the APEC Finance Ministers

Excerpt on Insurance, Retirement and
Long-Term Investment

28 July 2017

EXPANDING THE REGION'S LONG-TERM INVESTOR BASE

Retirement income and long-term investment

Insurers and pension funds play a critical role in the development of capital markets and financing of infrastructure projects. The long-term liabilities of insurers and pension funds are an ideal match for long-term assets such as infrastructure that can provide adequate returns to meet future emergency and retirement needs.

Mobilization of such large pools of long-term capital by insurers and pension funds to finance long-term infrastructure investment in Asia would represent a “triple win” for consumers, the financial sector and APEC member economies:

- Consumers receive high and stable returns for long-term savings.
- The financial sector is able to access deeper capital markets for infrastructure investment.
- Governments obtain relief from large contingent fiscal liabilities.

This “triple win” could be achieved by addressing three gaps that profoundly limit the development of both insurance and pension coverage and capital market development in APEC economies:

- **Pension/Protection Gap:** The 2015 and 2016 APFF Progress Reports listed high-level recommendations and measures that promote the development of retirement income system and ensure adequate retirement savings as well as adequate lifetime retirement incomes, and described three key means to address this gap: (a) mandatory provision for retirement savings at a sufficient replacement rate to fund retirement; (b) tax relief to promote long-term savings products; and (c) product and distribution innovation and financial awareness. Altogether the system promotes public financial awareness, ensuring a diverse range of retirement income products and improved financial security for the region's rapidly growing number of retirees.
- **Infrastructure/Investment Gap:** Inadequate infrastructure investment has been a long-standing issue in emerging Asia (outside of China). At the same time, Asia's huge savings are still being mostly channeled into short-term bank deposits and government securities in mature markets. The 2016 APFF Report noted the

following possible solutions to address the dearth of investable assets in Asia, particularly in infrastructure: (a) promotion of infrastructure as a defined asset class; (b) increased fiscal spending by Asian sovereigns within macroeconomic parameters suitable for developing economies; and (c) adoption of various financing vehicles, with a broader public-private partnership framework to promote long-term infrastructure investment.

- **Regulatory/Accounting Gap:** The 2016 APFF Progress Report recommended that APEC economies should adopt accounting, solvency, investment, and securities standards supportive of the development of retirement savings and infrastructure investment. To encourage insurers and pension funds to engage in long-term investments and retirement solutions, barriers arising from regulations and accounting should be removed, and policies that are suitable for long-term business should be promoted. Global solvency and accounting standards should be designed in a way to incentivize companies to improve risk management and adopt best practice. The main regulatory issues identified by the APFF, in particular, for insurance companies and corporate pension funds, are: (a) bank-centric regulations; (b) short-term oriented economic regimes; and (a) one-size-fits-all model. Remaining key accounting issues identified by the APFF are: (a) level of aggregation; (b) scope of variable fee approach; and (c) transition.
- It was recommended that APEC Finance Ministers encourage the participation of all relevant public sector stakeholders in dialogues with the private sector to address barriers to long-term investment. APFF intends to promote active participation of the private sector in relevant conferences and to convene workshops in the region involving a wide range of stakeholders.

The 2017 work plan and its progress in each of the three areas are described below.

Pension/Protection

The APFF intends to coordinate with global initiatives (i.e. OECD, ²¹ World Economic Forum or WEF²²) and the pension industry (i.e., Asia Pacific Investors Cooperation or APIC) and to hold dialogues with both pension and insurance regulators.

- **APFF/APIC Regional Pension Funds and Social Security Systems Summit, 5-6 December 2017, Hong Kong, China.** The APIC Summit is a private and confidential, 360-degree in-depth coverage of the Asian pension funds and social security systems, with participation and support of key stakeholders: policy makers, regulators and asset owners (pension funds, social security systems, insurance), plan participants and investment management companies' leaders. This year, as

²¹ OECD is currently planning to collaborate with the APFF to convene a conference on pensions, insurance and long-term investment in infrastructure in Asia.

²² See the pension white paper from the World Economic Forum (http://www3.weforum.org/docs/WEF_White_Paper_We_Will_Live_to_100.pdf).

pension and retirement systems are pressured to focus on returns and sustainability, the APIC network of pension funds will also focus on infrastructure investments. Delegates include APIC network members (central banks, treasuries, ministries of finance, pension funds, social security systems, trusts and insurance companies) and their international counterparts. The APIC Summit provides an exclusive venue where strategies, successful implementation of innovative asset allocation, and concerns affecting the retirement industry are discussed in confidence. Summit highlights include asset owners and stakeholders presenting case studies of successful collaborative investments into infrastructure and other alternative assets. Regulators and asset owners present the latest initiatives in providing maximum fund choices to plan participants. High-level discussions and presentations by select Asian emerging economies' policy and capital markets delegation. The APIC Regional Pension Funds Infrastructure Investment Survey is also presented. APFF as Summit Co-Host shall invite APEC Finance Ministers and relevant senior leaders to speak and participate at the Summit, and intends to deliver key messages to the summit participants.

The APFF continues to study selected APEC economies and examine gaps and potential solutions on retirement income and longevity solutions. The following are some examples of the recent developments in the region:

- **Thai Government introducing a new mandatory provident fund scheme:** The Thai government is planning to introduce a new mandatory provident fund scheme to address the issue of low coverage of the existing voluntary scheme. In 2016, only 2.8 million private company employees were taking part in the scheme out of a workforce of 38 million. The draft new scheme will require companies with 100 employees or more and without a comparable scheme to participate at the inception (estimated to be in 2018), and companies with fewer employees to comply at a later date. For the first three years, the new mandatory scheme will require employers and employees to each contribute 3 percent of the salary, with the contributions capped at 60,000 baht per month. Thereafter, the contribution rates for both employers and employees will gradually increase by 1 percent per year to a maximum of 10 percent over seven years.
- **Malaysia's Employees Provident Fund (EPF) receives innovation award for its retirement advisory service:** Malaysia's EPF was awarded the 2016 World Pension Summit Innovation Awards in the Communications category for its Retirement Advisory Service (RAS). First introduced on July 1 2014, RAS serves as a platform for EPF members to obtain free personalized advice on their EPF savings and retirement planning from EPF's trained officers. The initiative has quickly expanded over the past years and is now serving customers through 43 advisers at 18 RAS branches nationwide. In addition to advice and investment counselling, RAS also conducts awareness and educational programs on basic financial and retirement planning. RAS is EPF's effort to enhance its service delivery, thereby transforming its traditional transactional services model into an advisory-based

relationship with its customers.

- **Australian government's consultation on the Discussion Paper:** The Australian Government recently conducted a consultation on the discussion paper to develop a framework for the retirement phase of superannuation (see its one-page fact sheet²³). The Australian government realized that retirees are faced with complex financial decisions and are often unsure what to do with their retirement savings. In addition, they have very limited post-retirement solutions that manage longevity risk. As a result, many retirees are drawing down their pension savings very conservatively, for fear of outliving their savings. To address this, the government is exploring a framework that meets 3 requirements: income, risk management and flexibility. The product would have a higher income (15-30 percent higher than Account Based Pensions), and it would be flexible, without increasing the risk of outliving retirement savings.
- **Life Annuity Scheme in Hong Kong:** With Hong Kong having the highest life expectancy in the world (87 years for females and 81 years for males, according to the Japanese Government's figures in 2016), it is important for retirees to have adequate savings saved up during the accumulation phase. But it is equally important to focus on the decumulation phase, with the ultimate objective of providing a steady income stream during retirement. Commissioned by the Hong Kong government, the Hong Kong Mortgage Corporation Limited (HKMC) announced the launch of a public annuity scheme in April 2017. It is a first step in helping retirees turn lump sum cash into lifelong streams of income. The scheme will provide guaranteed fixed monthly annuity payment to annuitants (aged 65 or above who are Hong Kong permanent residents) until his/her death. A lump-sum premium payment to the HKMC has a tentative cap and floor of HK\$1 million and HK\$50,000 respectively. An independent consultant has verified and validated the internal rate of return can be set at 4 percent, translating into monthly fixed payouts of HK\$5,800 for male and HK\$5,300 for female per HK\$1 million premium paid. The scheme also comes with a death benefit provision – which guarantees each annuitant to receive monthly annuity payments with total amount equal to 105 percent of the premium paid and in the event an annuitant dies before receiving 105 percent of the premium paid, his/her beneficiary(ies) will receive the remaining unpaid monthly instalments or a lump-sum amount. The scheme is expected to be launched in mid-2018, subject to the support of the Hong Kong Monetary Authority and the authorization by the regulatory authority for the insurance sector.

Infrastructure/Investment

The APFF is coordinating with global (i.e. Global Infrastructure Hub, OECD, WEF) and ASEAN initiatives (i.e. ASEAN Insurance Council) and the securities industry (i.e.

²³ https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/supporting_documents/CIPR%20Factsheet.pdf.

ASIFMA), and undertakes dialogues with selected APEC economies (i.e. Indonesia, Vietnam, Philippines, Thailand).

- **APFF/APIP Dialogue with Indonesian Government on PPPs in Waste Management on 14 March in Jakarta:** The APFF collaborated with APIP, the Government of Japan and the Government of Indonesia in capacity building to help promote a pipeline of bankable PPP projects in waste management in Indonesia.
- **APEC Finance Ministers Process Seminar on Long-Term Investment in PPP on 17 May in Ninh Binh:** The APFF provided inputs to the work of FMP on risk allocation in PPPs, development of a pipeline of bankable infrastructure waste-to-energy projects, and promoting long-term investment in infrastructure from pension funds, insurance companies and Islamic financial institutions.
- **APFF Roundtable on Long-Term Investment in Infrastructure on 25 July in Toronto:**²⁴ Confronted with aging populations, lengthening life spans and a low-interest rate environment, institutional investors are seeking greater portfolio diversification and more profitable investments in long-term assets that match their long-term liabilities. This Roundtable was held to help address issues, including the lack of capacity in many developing economies' public sector to bring bankable projects to the market, the dearth of deep and liquid local currency bond markets that are the usual channels for long-term investment in infrastructure, and the lack of capacity of most pension funds and insurers to directly manage infrastructure assets, especially in developing economies. It brought together key stakeholders from the public sector, the investor community, infrastructure experts, and multilateral and specialized institutions to identify forms of collaboration that can directly facilitate investment in infrastructure.

The APFF continues to study selected APEC economies and examine possible improvements to attract long-term investors, including financing vehicles, green finance, and survey on infrastructure investments²⁵.

- **Rethinking risk allocation in PPPs:** Over the past decade, the flow of funds to infrastructure has increased dramatically and is now projected to continue to increase for years to come. Prequin reports that AUM grew from \$25 billion in 2005 to \$332 billion in 2015. Allocations to infrastructure are also increasing, from current allocations of 3.5 percent in 2011 to 4.3 percent in 2015. However, target allocations are still not being met, with a 2015 target allocation average of 5.7 percent and only 4.3 percent currently allocated. The bottlenecks in Asia preventing capital from flowing to meet demand include insufficient awareness

²⁴ This is the APFF Roundtable on *Expanding Trans-Pacific Opportunities for Long-Term Investment in Infrastructure*, co-organized by ABAC with the Asia-Pacific Foundation of Canada in collaboration with the GIH, OECD and World Bank's Global Infrastructure Facility and sponsored by the Governments of Canada and Ontario.

²⁵ APIC is conducting a survey on infrastructure investments in ASEAN region and intends to present the result at APFF/APIC Summit on 5-6 December in Hong Kong.

of investors, inadequate legal and regulatory frameworks, poorly structured and prepared projects, inequitable risk allocations, lack of capacity by governments to manage projects, and imbalance between risk and return. At the 2016 Executive Dialogue with APEC Finance Ministers in Lima, there was an acknowledgement by Ministers that governments need to rethink how risk is allocated between the public and private sectors in PPPs. Key to growing and incentivizing long-term investment in infrastructure is a deeper understanding by policymakers of the risk appetite of different investors. PwC has undertaken a qualitative survey to provide an investor perspective, and preliminary findings were presented at the APEC Seminar on Long Term Investment held in Ninh Binh on 17 May. The seminar underlined the need for further dialogue between stakeholders on how to address regulatory, foreign exchange, construction and other types of risks so that they do not deter investment.

- **The IFC/WBG's PPPs in infrastructure:** IFC/WBG has partnered with insurers Prudential and Allianz to create a new fund that allows institutional investors to increase their exposure to emerging market infrastructure with managed risk. Institutional investors establish and fund special purpose vehicles for co-investment with IFC in emerging market infrastructure. When IFC/WBG provides debt financing for infrastructure projects, it offers a portion of each new loan to the special purpose vehicles on the same terms and conditions as IFC/WBG's lending. This approach helps to overcome one of the major barriers to institutional investors allocating more of their assets to infrastructure, which is their preference and/ or regulatory requirement for investment-grade risk/return profiles. The joint fund addresses this by providing a first-loss tranche of up to 10 percent of each partner's portfolio, supported by guarantees from the Swedish International Development Cooperation Agency (SIDA). The partnership enables each US\$1 invested by IFC/WBG and SIDA to mobilize an additional US\$8-10 from a third party. East Spring Investments, the Asian asset management business of Prudential plc, has raised \$500 million for the fund.

Regulation/Accounting

The APFF participates in global and regional conferences and meetings to discuss relevant regulatory and accounting issues. The following are some examples of external conferences, for which the APFF provided or plan to provide inputs:

- 17th OECD/ADB Roundtable on Capital Market and Financial Reform, Tokyo, 2-3 March
- 3rd Indonesia Infrastructure Finance Conference, Jakarta, 17-18 May
- OECD/NAIC/OIC Joint Roundtable on Insurance and Retirement Savings in Asia, Bangkok, 20-21 September
- 5th Insurance China International Summit, Shanghai, 22-23 September
- OLIS 50th Anniversary Life Insurance Symposium, Tokyo, 25-26 October
- 24th IAIS Annual Conference, Kuala Lumpur, 2-3 November
- 36th FIDES Conference, El Salvador, 12-15 November
- 27th CNSF International Conference, Mexico City, 16 November

- 28th Pacific Insurance Conference, Hong Kong, 19-22 November
- 20th ASEAN Insurance Regulators' Meeting and 43rd ASEAN Insurance Council Meeting, Vientiane, 21-24 November
- 4th NAIC Asia Pacific International Forum, Honolulu, 29 November – 1 December

In its 2014 Interim Report, the APFF identified regulatory and accounting issues and high-level recommendations to implement approaches in promoting long-term investment and longevity solutions by insurers and pension funds. The APFF also supported ABAC in drafting a comment letter to the International Association of Insurance Supervisors (IAIS) on the risk-based global insurance capital standards (ICS) on 20 January 2015, a comment letter to the IASB/FASB on insurance contracts on 10 October 2013 and a comment letter to the IASB on the Conceptual Framework for Financial Reporting. As the 2015 and 2016 APFF Progress Report also highlighted, the APFF has engaged in continuous outreach and dialogue with policymakers, regulatory authorities and accounting standard setters, international (i.e. IAIS, IASB, OECD, World Bank) and regional institutions (i.e. ADB, ASEAN, NAIC, ASSAL), based on the list of identified issues and recommendations:

- **IAIS work on risk-based global ICS:** On July 21, the IAIS released the risk-based global insurance capital standard (ICS) Version 1.0 for extended field testing. This represents a significant step towards the development of ICS Version 2.0 in late-2019. ICS Version 2.0 is expected to achieve a greater global convergence as the IAIS continues progressing towards the ultimate goal of a single global standard delivering substantially the same outcome across jurisdictions.
- **Dialogue with IAIS:** The APFF held bilateral meetings with the IAIS Secretariat and key IAIS members and participated in various IAIS conferences and meetings to be engaged in active discussions on key issues for the Asia-Pacific region. The APFF's key messages included the following: (a) ICS should take into account the specific nature of the insurance business, avoid bank-centric capital weighted rules, and consider the characteristics of long-term assets supporting long-term liabilities as well as the effect of asset diversification. (b) An economic based regime should have a long-term vision. Short-term oriented mark-to-market valuation may produce significant volatility for long-term business, which may not be conducive to the insurers' capacity to meet long-term obligations. Insurers should be allowed to invest in assets with long-term growth opportunities, such as infrastructure investments. (c) International standards should be principles-based and aim to achieve comparable outcomes by taking into account the region's diversity. Regulators are now generally aware of the issues identified by the APFF, and are considering various measures to mitigate their negative impact on long-term business and investments. A number of IAIS members in the region noted the relevance of APFF's recommendations to promote long-term investments and business, and requested the APFF to provide more inputs.
- **IASB issued IFRS17:** On 18 May, IASB published a new standard, IFRS 17 (Insurance Contracts), which would require insurance liabilities to be measured at a current

fulfillment value and provide consistent and principle-based accounting requirements for insurance contracts. IFRS 17 supersedes IFRS 4 (Insurance Contracts) and is effective for periods beginning on or after 1 January 2021, with earlier adoption permitted if both IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments) have also been applied.

- **Dialogue with IASB:** The APFF held bilateral meetings with some IASB Board Members and engaged in constructive discussions on key issues, which may ultimately facilitate the implementation of IFRS in the region. As a result, we observed some improvements in the final IFRS17 from the 2013 Exposure Draft, including the permission of optional OCI, a measurement model for participating contracts under some conditions where changes in the estimate of the future fees that an entity expects to earn from participating contract policyholders are adjusted against the CSM (so-called “variable fee approach”), and alternative approach for CSM at transition. These changes would address some of the issues identified by the APFF. Remaining key issues include level of aggregation and scope for variable fee approach. While the IASB made some improvements on these areas, there are some technical and practical aspects yet to be addressed. The APFF intends to be involved in the interpretation and implementation processes, in cooperation with European and North American representatives, who share similar concerns, and assist the IASB in reflecting economic reality and long-term nature of the business, and avoiding the creation of disincentives for insurers in undertaking long-term investments and business.
- **Dialogue with regulatory authorities in the region:** The APFF has engaged in dialogues to exchange views on regulatory and accounting issues with the insurance regulatory authorities in the region, including Brunei, China, Chinese Taipei, Hong Kong, Indonesia, Japan, Malaysia, Singapore, Thailand, and the United States. Most recently, the APFF convened a dialogue with the Indonesian insurance regulator (OJK) on 19 May in Jakarta to discuss retirement, long-term investment in infrastructure, regulatory and accounting issues.²⁶
- **Coordination with ASEAN:** The APFF and the ASEAN Insurance Council have coordinated to make consistent recommendations and communicate with the ASEAN Insurance Regulators. The APFF also had a dialogue with the ASEAN Secretariat on 19 May to discuss key issues and emphasize the collaboration between APFF and ASEAN to promote sustainable, resilient and inclusive long-term growth of the APEC and ASEAN economies.
- **Coordination with other stakeholders:** The APFF has coordinated with the Geneva Association, Institute for International Finance (IIF) and Hub Group so that their global positions properly reflect Asia-Pacific perspectives.

The APFF continues to study selected APEC economies and examine regulatory and

²⁶ The APFF is planning to have a similar dialogue with Thai insurance regulator (OIC) in September in Bangkok.

accounting issues and consider possible implementation support:

- **APFF Roundtable on Insurance Regulations and Accounting on 31 October in Hong Kong:** To better understand key issues and support implementation on recent development, including IFRS17, the newly published standards on insurance contracts, the ICS, and new solvency regimes in the region, the APFF is holding a roundtable hosted by Deloitte China in collaboration with the Hong Kong University of Science and Technology to allow the IASB and key stakeholders in public and private sectors to exchange viewpoints and discuss key issues on insurance regulations and accounting in the region. Unlike Solvency II in Europe, a number of local regulators in the Asia Pacific region are considering IFRS 17 as the basis for the solvency balance sheet, in which case the impact of IFRS17 would go beyond financial reporting, and may produce unintended consequences. The APFF intends to assist in analyzing such indirect impact, identifying issues (i.e. choice of discount rate, treatment of CSM/risk adjustments), and considering possible solutions in selected APEC economies.

Communication Strategy

The APFF intends to enhance communication with stakeholders by focusing on key messages and explore various effective communication tools (i.e. video interviews, short movies, cultural performances) to promote sustainable, resilient and inclusive development with diversity in APEC economies.

Enabling Islamic financial institutions to expand cross-border investment in infrastructure

Islamic finance has significant potential to meet long-term funding needs for infrastructure projects, which are suitable for its asset-based and risk-sharing nature.²⁷ At the 2015 APEC Finance Ministers' Meeting hosted by the Philippines in Cebu, ministers and the private sector discussed the development of an Islamic Infrastructure Investment Platform (I3P), in order to facilitate the mobilization of capital in Islamic institutions to fund infrastructure across the region.

In October 2015, the government of Brunei Darussalam hosted a workshop in collaboration with the APEC Business Advisory Council (ABAC) Brunei, the Asia-Pacific Infrastructure Partnership (APIP) and the Asia-Pacific Financial Forum (APFF). In May 2016, the government of Malaysia, in collaboration with ABAC Malaysia, hosted an APFF workshop to develop concrete proposals on the structure and mission of the I3P. In February 2017, ABAC Thailand and the Thai Ministry of Finance led discussions in Bangkok on the way forward to advance this initiative. Participants in these

²⁷ The World Bank's latest global report on Islamic finance estimated total Islamic banking assets at US\$1.9 trillion, outstanding sukuk issuance of US\$310.9 billion and Islamic assets under management at US\$60.6 billion in 2014. Growth rates have been high and the future is promising as financial access increases among the mostly young 1.5 billion Muslim customers in coming years. World Bank Group, *Islamic Finance: A Catalyst for Shared Prosperity*, 2016.

discussions agreed on the following proposed features of I3P:

- I3P would provide a platform for collaboration among public, private, international and academic experts to address the key obstacles to the expansion of cross-border investment by Islamic financial institutions, especially long-term investment, in infrastructure projects in APEC economies.
- I3P would be developed under APFF with the support of Brunei, Malaysia, Thailand and other interested APEC member economies, and will be open to participation by other APEC members as it develops. It is hoped that I3P's success in addressing key issues would lead to more cross-border investment in infrastructure among participating economies, as well as more investment from leading Islamic financial centers to the region.
- Stakeholders will include experts drawn from Asian Development Bank, World Bank Group, Islamic Development Bank, the Sustainable Infrastructure Foundation, the APFF's Retirement Income and Insurance Work Stream, the APIP, institutional investors, financial institutions, industry associations, legal and consulting firms, government agencies, academic organizations, regulatory bodies and other relevant institutions.
- I3P will have a small secretariat based in a location agreed upon by the pathfinder economies. The funding for the secretariat may be provided by the public or private sector or both, or may be shouldered by an existing organization. During the initial stage, a small APFF task force led by the Brunei private sector would play a provisional secretariat role, while undertaking activities and discussions leading to the establishment of the secretariat. The role of the secretariat would be mostly coordination, maintenance of a directory of experts participating in the initiative, and collection and management of information related to definitions, projects and others needed to meet the goals of the initiative.
- Actual work would be undertaken by stakeholders on a volunteer basis, organized around a number of work streams led by volunteer Sherpas agreed upon by the pathfinder economies. Activities would be undertaken on a self-funded basis. Participating organizations will be encouraged to host activities. Participants will be responsible for financing their own travel and accommodation through their own institutions or sponsors. Funding may be solicited from appropriate sources for projects that require significant dedication of time and effort, such as research projects or surveys.

Participants have identified priority issues that need to be addressed by dedicated work streams, which are as follows:

- development of **common definitions** of Sharia-compliant infrastructure projects and financial instruments acceptable in all pathfinder economies;
- development of Islamic **hedging instruments**;
- development of **financial instruments suitable for infrastructure investment** from Islamic pension funds and takaful;

- identification of discriminatory **tax policies** in pathfinder economies and actions to address them; and
- development of **project preparation tools** for participating economies and possible pilot projects.

An APFF conference will be convened in 2017 to discuss how these priority issues could be addressed in concrete terms, and develop a proposed initial work program for the I3P.

FOSTERING FINANCIALLY RESILIENT COMMUNITIES

The Asia-Pacific is the world's most natural disaster-prone region on the planet. For decades, it has recorded the biggest number of natural disaster events. Their economic consequence has been enormous, which is attributable to growing concentration of population and economic activities in hazard-prone areas. In addition to their vulnerability to natural disasters, many people belonging to the low-income segments of society, including owners of micro- and small enterprises, do not have access to insurance services.

To address these issues, APEC Finance Ministers included in the CAP deliverables to establish and promote private disaster insurance schemes and to develop a roadmap and network of experts through the support of APFF for expanding the coverage of microinsurance in member economies. This report highlights the work being undertaken in APFF with respect to disaster risk financing and insurance (DRFI) and microinsurance. In particular, APFF this year completed the draft of a proposed roadmap for expanding the coverage of microinsurance in the region, which is attached to this report as Appendix 2.

A roadmap for expanding the coverage of microinsurance in APEC

Effective risk management through microinsurance is critical for low income individuals and micro and small enterprises, especially in developing economies. However, only around 5.2 percent of people in emerging markets worldwide are currently covered by micro-insurance. Related to this, Asia-Pacific policy makers need to develop financial instruments to mitigate the impact of natural catastrophes in the world's most disaster-prone region. To help implement the CAP's deliverable on microinsurance, the APFF Microinsurance Sub-Stream²⁸ convened an international group of microinsurance experts, practitioners and regulators to draft a proposed roadmap for expanding the coverage of microinsurance in the region, referred to henceforth as the Microinsurance Roadmap (MIR).

²⁸ This APFF Sub-Stream is led by the Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia).

Table 1: The Process of Developing the APEC Microinsurance Roadmap

| Activities/Date/Location | Collaborators | Results |
|--|--|---|
| 1. APFF Workshop on Microinsurance Development Roadmap for Asia-Pacific Emerging Markets /16 March 2017 / Hanoi, Vietnam | Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia), Ministry of Finance -ISA Vietnam, ABAC | <ul style="list-style-type: none"> ✓ Identified the issues that will be addressed by the MIR ✓ Defined the elements of MIR ✓ Created the interim MIR drafting group (DG) |
| 2. Discussed the concept of MIR in a panel session in the Catastrophe Insurance and Risk Management Summit/23-24 May 2017/ Singapore | Organizer: Equip Global | <ul style="list-style-type: none"> ✓ Raised awareness |
| 3. Drafting the MIR and consultation calls with the DG/June-July 2017/ Various | GIZ RFPI Asia and the MIR DG” | <ul style="list-style-type: none"> ✓ MIR was drafted. Comments collected in the consultation calls with the DG |
| 4. Presented the concept of MIR during the MiN June Members Meeting/28 June 2017/Luxembourg | Microinsurance Network (MiN) | <ul style="list-style-type: none"> ✓ Raised awareness ✓ Campaigned for volunteers to the MIR Drafting Group |
| 5. MIR panel session in the ABAC Financial Inclusion Forum /11 July/ Hoi An, Vietnam | GIZ RFPI Asia, The Foundation for Development Cooperation (FDC), ABAC, Central Bank Vietnam | <ul style="list-style-type: none"> ✓ Gathered inputs and comments to the draft MIR from 4 expert panellists and from the participants of the ABAC FI Forum ✓ Added new members to the DG ✓ Submitted the draft MIR to ABAC for inclusion in the 2017 APFF report to APEC FMs |
| 6. Coming soon – APFF MIR Roundtable meeting / 7 Nov 2017/ Lima, Peru | GIZ RFPI Asia, Asociación Peruana de Empresas de Seguros (APESEG), Microinsurance Network (MiN), Munich Re Foundation, Superintendencia de Banca y Seguros (SBS), ABAC | <ul style="list-style-type: none"> ✓ Will gather inputs and comments to the draft MIR from Latin America stakeholders |

** The drafting group (DG) is composed of volunteer officials from Asian insurance regulators, regional insurance companies, international network of insurance regulators, global network of microinsurance stakeholders, national association of insurers, international foundation, international consulting/service company, and international development organizations.*

The MIR aims to address the following issues

1. Lack of responsive policies and proportionate regulations supportive of microinsurance;
2. Dearth of scalable business models that takes advantage of large aggregators and the use of fintech;
3. Need for sustainable financial literacy measures that will inform and educate key stakeholders on microinsurance; and
4. Inadequate public-private sector collaboration and poor inter-agency cooperation.

As such, the MIR identifies four key result areas or pillars that will guide APEC member economies in developing an inclusive insurance market. These are:

1. Establishment of policies and proportionate regulations for inclusive insurance and microinsurance;
2. Adoption and replication of scalable business models using fintech for inclusive insurance;
3. Establishment of inter-agency coordination and private-public sector coordination mechanism supportive of inclusive insurance; and
4. Adoption and implementation of financial literacy and consumer protection measures for insurance clients.

The MIR suggests priority action plans that maybe implemented in the short-term, medium-term or long-term depending on the level of enabling environment in the member economy. *See Appendix 2 for a full draft of the MIR.*

Under the current APEC chairmanship of Vietnam and in the upcoming APEC chairmanship of Papua New Guinea in 2018, the APFF wishes to issue the following Recommendations

1. Include the MIR in the 2018 agenda of the Finance Ministers Process and in the 2018 Meeting of Economic Leaders;
2. Collaborate with APFF in identifying stakeholders that would champion the adoption and implementation of MIR in their respective APEC member economies;
3. Mobilize public and private resources that could contribute to the implementation of MIR; and
4. Form oversight groups in each member economy that would steer and monitor the implementation of MIR.

Disaster risk financing and insurance

The Asia-Pacific continues to be the most disaster-prone region on the globe. The year 2016 saw severe earthquakes in Japan's Kyushu Island and New Zealand's South

Island, flooding in the Southern US and China, a large scale wildfire in Canada, and a winter storm in Australia. Their economic consequence has been enormous, largely due to growing concentration of population and economic activities in hazard-prone areas, and recovery from devastation may often take years. It not only slows down economic activities, but also has the potential negative impact on sovereign risk ratings. APEC Finance Ministers are aware of the situation and recognize the need to develop coordinated disaster risk management strategies and to improve their approach to Disaster Risk Financing and Insurance (DRFI) as a means to build resilience in the region.

Consequently, Asia-Pacific policy makers are setting their sights on developing financial instruments to help mitigate the impact of disasters *ex ante*. This complements ongoing efforts to improve disaster response and disaster risk management strategies. It was therefore not a coincidence that the APEC Finance Ministers selected DRFI as one of the priority issues in the CAP. The Ministers identified initiatives and expected deliverables, and how they should be carried out in terms of short, medium, and long-term objectives over the course of ten years. It is worthy of note that CAP recognizes the role of private sector players, and stresses the importance of public and private sectors working closely together. The three sets of deliverables were laid out as follows:

- Establish and promote private disaster insurance schemes (medium/long term).
- Deepen insurance penetration within their economies and develop regional risk sharing measures (long-term).
- Develop a roadmap and network of experts through the support of APFF for expanding the coverage of micro-insurance and disaster risk finance in member economies (medium term).

In response to the CAP's request to study the possibility of constructing a disaster risk data base, it was deemed necessary to start with framing the scope and granularity of what constitutes a database. In order to avoid overlapping or duplication of work with existing initiatives, this needs to be approached mindfully of the limited resources. Meanwhile, APFF continuously stays in contact with international institutions such as the Asian Development Bank (ADB), OECD, WBG, the Insurance Development Forum (IDF) and the Geneva Association to support policymaking efforts pertaining to DRFI.

APFF also collaborates with ASEAN Natural Disaster Research and Works Sharing (ANDREWS), a Working Committee of the ASEAN Insurance Council (AIC). APFF's DRFI expert was invited to the 2nd ASEAN Insurance Summit on 23 November 2016 in Yogyakarta, Indonesia, where DRFI was discussed intensively. It was agreed that the two communities work closely by sharing knowledge and experience with each other.

Under the APEC's 2016 Peruvian presidency, the subject of DRFI was highlighted in APFF's Dialogue with APEC Finance Ministers, which took place as part of the APEC Finance Ministers Meetings in October 2016. In its opening remarks, APFF called for enabling regulatory mechanisms to help private sector companies comfortably write

natural disaster risks, by citing catastrophe reserving and risk-based capital systems as examples. Finance Ministers of Japan, Chile and New Zealand each shared their experience in how effectively their national disaster insurance scheme responded in the occasions of large scale natural disasters. The Ministers took note of the importance of designing an *ex-ante* disaster risk insurance system that meets the domestic needs, while putting in place an enabling regulatory system that facilitates private sector insurance companies write more natural disaster risks.

APFF has been encouraging each economy to strategize its financial risk management pertaining to disaster risks. The Peruvian Ministry of Economy and Finance demonstrated leadership in this regard by releasing a report entitled “Peru: A Comprehensive Strategy for Financial Protection Against Natural Disasters.” The report lays out strategic lines of action which are specifically designed for Peru, and can be referred as a benchmark for other disaster-prone economies with a view to promote DRFI domestically.

In response to the high level of interest expressed by the Ministers, and building on its milestone, APFF continues to offer its views and expertise through continuous dialogues with officials involved in the APEC-FMP, along with interested stakeholders.

Among a number of potential engagement opportunities in the future, APFF plans to hold a multi-stakeholder dialogue at the World Bosai Forum in Sendai, Japan on 27 November, 2017. The forum is expected to attract government officials, academia and disaster risk practitioners from all over the world. With the accumulated knowledge on disaster risks, APEC and APFF have much to offer to enable a practical and in-depth debate on how to better mitigate financial concerns arising out of natural disasters.

APFF continues to abide by its recommendations as set forth in its 2015 & 2016 Progress Reports. While the APFF’s previous recommendations on DRFI remains valid, the timeline is adjusted and reformatted as follows in alignment with CAP and the pace of its progress. Our focus remains with identifying which economies and risks should be prioritized in designing a DRFI scheme. To that end, APFF continues to make itself available for a constructive dialogue between public sector officials and private sector experts towards designing practical DRFI solutions.

| CAP Deliverables | APFF Activities | Proposed Timeline | | |
|---|---|--|---|--|
| | | 2017 (Vietnam) | 2018 (PNG) | 2019 (Chile) |
| 1. Establish and promote private disaster insurance schemes | ✓ Contribution to APEC DRFI seminars | ● Presented private sector perspective (@APFF WS on Microinsurance 16 March, Hanoi, Vietnam) | ● Continue as an annual effort | ● Continue as an annual effort |
| | ✓ Assist APEC in identifying economies and perils of priority | ● Initiate discussions with APEC FM officials | ● Identify economies and perils of priority*3 | ● Communicate with relevant officials towards implementation |
| 2. Deepen insurance penetration within their economies and develop regional risk sharing measures | ✓ Enhance the availability of risk exposure data (in collaboration with the World Bank) | ● Initiate stock-taking on the availability of risk exposure data*1 | ● Complete stock-taking*4 | ● Study on risk pooling among APEC Economies |
| 3. Develop a roadmap and network of experts | ✓ Formalise an expert group | ● Invite core expert members*2 | ● Broaden the geographical scope | ● Continue efforts to expand the network |
| | ✓ Contribute to the drafting of the roadmap | ● Plan and organize a multi-stakeholder dialogue @World Bosai Forum, Sendai, Nov 2017 | ● Initiate the drafting process | ● Complete the roadmap |

*1 Design a template for stock-taking (ideally through a face-to-face meeting of the DRFI SS experts, to be held by year-end)

*2 APFF's DRFI Sub-stream has so far received support from OECD, the World Bank, the Geneva Association, ASEAN Natural Disaster Research and Works, Citi, Munich Re, Swiss Re and Tokio Marine

*3 To be worked out in conjunction with the 2nd deliverable "deepen insurance penetration" and its identification process of economies and perils of priority (ideally through a workshop-style meeting with the presence of finance ministry officials from the economies prone to natural disasters, to be held by first-half of 2018)

*4 Completing the template for stock-taking (ideally through a workshop-style meeting as indicated above, to be held by first-half of 2018.